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10 July 1974

MEMORANDUM FOR THE RECORD

SUBJECT: A Preliminary Look at the Causes of Inflation  
in Japan

The attached tables were sent to Mr. David Klock  
at OASIA Research, Treasury.

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Attachment:  
As stated

Distribution: (S-6313)A

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## Japan: Causes of Inflation

	Wholesale Prices - Percent of total change				
	1972		1973		1974
	<u>1st Half</u>	<u>2nd Half</u>	<u>1st Half</u>	<u>2nd Half</u>	<u>1st Half</u>
Agriculture	-11	22	27	28	33
Oil	14	3	2	15	61
Other raw materials	-43	27	42	23	12
Manufactures	negl	negl	negl	negl	negl
Labor	122	2	13	9	25
Residual	<u>18</u>	<u>46</u>	<u>16</u>	<u>25</u>	<u>-31</u>
Total	100	100	100	100	100
Change in whole-sale prices (%)	.51	5.25	7.96	19.45	11.15
Final Demand Weighted Prices Percent of total change					

	1972		1973		1974
	<u>1st Half</u>	<u>2nd Half</u>	<u>1st Half</u>	<u>2nd Half</u>	<u>1st Half</u>
Agriculture	-6	49	34	40	25
Oil	5	4	2	15	36
Other raw materials	-16	38	35	23	7
Imported manufactures	negl	negl	negl	negl	negl
Labor	<u>117</u>	<u>9</u>	<u>29</u>	<u>22</u>	<u>32</u>
Total	100	100	100	100	100
Change in final demand weighted prices	.63	1.50	4.10	8.90	9.90

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TABLE 3 B

**Impact of Changes in Exogenous Prices  
on Unit Output Prices in Japan  
Partial Sector Results**

**1972 First Half**

		Percent Change in Sector Unit Output Prices Due to Changes in					
		Sector Weight	Total	Agricul- tural Prices	Other Raw Material Prices	Crude Oil Unit Prices	Unit Labor Costs
1	AGRICULTURE/FORESTRY	24.734	-0.040	-0.135	-0.015	0.024	0.155
16	CRUDE, NATURAL GAS	7.129	2.467	-0.004	-0.216	1.259	0.526
17	REFINED PRODUCTS	5.216	1.093	-0.003	-0.273	0.880	0.104
18	EXOG. RAW MATERIALS	6.375	-0.236	-0.009	-1.717	0.776	0.714
22	PROCESSED FOODS	77.432	0.293	-0.174	-0.018	0.027	0.439
34	TOBACCO	9.977	0.176	-0.055	-0.076	0.007	0.222
36	IRON, STEEL	12.131	0.377	-0.005	-0.345	0.066	0.611
40	NON-FERROUS	0.215	0.151	-0.007	-0.346	0.050	0.674
41	FABRICATED SHAPES	17.254	0.615	-0.005	-0.164	0.031	0.734
43	CHEMICALS	16.327	0.542	-0.236	-0.225	0.074	0.549
50	RUBBER	3.077	0.729	-0.000	-0.004	0.037	0.747
52	FIBERS, YARN	24.446	0.672	-0.005	-0.021	0.032	0.767
54	CLOTHING FURS	16.491	0.793	-0.006	-0.017	0.024	0.830
57	LEATHER GOODS	1.219	0.491	-0.241	-0.027	0.028	0.752
63	WOOD PRODUCTS	10.174	0.587	-0.007	-0.078	0.021	0.674
72	AGRI. INDUSTRIAL	62.131	0.647	-0.005	-0.079	0.026	0.727
73	ELECTRIC	53.427	0.521	-0.009	-0.119	0.026	0.533
76	TRANSPORT	69.176	0.673	-0.007	-0.071	0.024	0.744
82	PRECISION INSTRUMENTS	9.071	0.712	-0.012	-0.002	0.022	0.774
83	MISC. MANUFACTURE	12.219	0.651	-0.005	-0.046	0.043	0.679
86	CONSTRUCTION	182.042	0.518	-0.014	-0.221	0.015	0.738
90	UTILITIES	10.428	0.611	-0.001	-0.043	0.152	0.525
92	TRANSPORT	44.174	0.642	-0.005	-0.016	0.055	0.907
102	COMMUNICATION	3.147	0.221	-0.002	-0.005	0.007	0.322
103	WHOLESALE, RETAIL	103.235	0.734	-0.005	-0.011	0.023	0.727
104	PUBLISHING, PRINTING	5.223	0.408	-0.024	-0.015	0.015	0.334
110	OTHER SERVICES	233.613	0.594	-0.015	-0.022	0.014	0.618
120	LABOR		1.563	0.0	0.0	0.0	1.563

**1972 Second Half**

		Percent Change in Sector Unit Output Prices				
		Due to Changes in				
		Total	Agricul- tural Prices	Other Raw Material Prices	Crude Oil Unit Prices	Unit Labor Costs
1	AGRICULTURE/FORESTRY	7.939	7.721	7.172	7.042	7.974
16	CRUDE, NATURAL GAS	3.525	0.073	0.103	3.227	0.116
17	REFINED PRODUCTS	1.547	0.063	0.057	1.359	0.167
18	EXOG. RAW MATERIALS	12.015	0.171	11.356	0.133	0.157
22	PROCESSED FOODS	4.095	3.687	0.252	0.046	0.102
34	TOBACCO	1.218	1.144	0.052	0.011	0.722
36	IRON, STEEL	2.609	0.106	2.270	0.079	0.135
40	NON-FERROUS	4.092	0.137	3.632	0.080	0.151
41	FABRICATED SHAPES	1.279	0.109	0.955	0.053	0.162
43	CHEMICALS	1.139	0.523	0.361	0.127	0.121
50	RUBBER	1.248	0.794	0.226	0.063	0.167
52	FIBERS, YARN	1.063	1.392	0.162	0.155	0.165
54	CLOTHING FURS	1.067	0.718	0.126	0.048	0.133
57	LEATHER GOODS	1.622	1.229	0.179	0.068	0.166
63	WOOD PRODUCTS	2.132	1.764	0.158	0.044	0.149
72	AGRI. INDUSTRIAL	0.972	0.107	0.059	0.044	0.160
73	ELECTRIC	1.157	0.172	0.799	0.043	0.151
76	TRANSPORT	0.952	0.141	0.083	0.040	0.165
82	PRECISION INSTRUMENTS	0.396	0.746	0.349	0.037	0.173
83	MISC. MANUFACTURE	1.020	0.492	0.395	0.073	0.150
86	CONSTRUCTION	1.057	0.271	1.445	0.057	0.163
90	UTILITIES	0.723	0.064	0.273	0.260	0.116
92	TRANSPORT	0.464	0.063	0.197	0.074	0.209
102	COMMUNICATION	0.277	0.049	0.015	0.012	0.131
103	WHOLESALE, RETAIL	0.379	0.007	0.373	0.040	0.160
104	PUBLISHING, PRINTING	0.728	0.481	0.197	0.025	0.184
110	OTHER SERVICES	0.612	0.307	0.145	0.024	0.136
120	LABOR	0.342	0.0	0.0	0.0	0.442

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TABLE 3B  
ContinuedImpact of Changes in Exogenous Prices  
on Unit Output Prices in Japan  
Partial Sector Results

## 1973 First Half

		Percent Change in Sector Unit Output Prices Due to Changes in				
		Total	Agricultural Prices	Other Raw Material Prices	Crude Oil Unit Prices	Labor Costs
1 I	AGRICULTURE/FORESTRY	14.877	13.977	0.200	0.700	0.573
16 II.C.1	CRUDE, NATURAL GAS	4.860	0.147	0.263	1.520	0.330
17 II.C.2	REFINED PRODUCTS	2.290	0.123	0.144	1.482	0.539
18 II.D	EXOR. RAW MATERIALS	28.120	0.333	28.495	0.163	1.256
22 III	PROCESSED FOODS	8.402	6.018	0.631	0.351	0.863
30 III.I	Tobacco	2.685	2.120	0.132	0.013	0.412
36 IV.A	IRON, STEEL	7.075	0.296	5.741	0.997	1.373
40 IV.B	NON-FERROUS	10.497	0.266	8.030	0.095	1.206
41 IV.C	FABRICATED SHAPES	3.157	0.176	2.411	0.058	1.293
43 V.A	CHEMICALS	3.053	1.026	0.917	0.161	0.969
50 V.B	RUBBER	3.374	1.516	0.579	0.979	1.332
52 VI.A	FIBERS, YARN	6.243	2.506	0.361	0.960	1.316
58 VI.C	CLOTHING FURS	3.212	1.391	0.315	0.040	1.460
59 VI.D	LEATHER GOODS	4.201	2.363	0.457	0.053	1.324
63 VII	WOOD PRODUCTS	5.066	3.351	0.672	0.054	1.108
72 VIII.A	AGRI., INDUSTRIAL	3.208	0.212	1.667	0.068	1.261
73 VIII.B	ELECTRIC	3.584	0.316	1.445	0.047	1.234
76 VIII.C	TRANSPORT	3.170	0.276	1.533	0.044	1.310
82 VIII.D	PRECISION INSTRUMENTS	1.269	0.478	1.369	0.051	1.360
83 VIII.E	MISC. MANUFACTURE	1.003	0.355	0.776	0.070	1.197
86 IX	CONSTRUCTION	5.574	0.531	3.678	0.063	1.300
90 X	UTILITIES	2.053	0.125	0.719	0.227	0.928
95 XI.A	TRANSPORT	2.073	0.123	0.272	0.174	1.505
102 XI.B	COMMUNICATION	1.644	0.095	0.029	0.013	1.447
103 XI.C	WHOLESALE, RETAIL	1.700	0.132	0.137	0.044	1.221
104 XI.D	PUBLISHING, PRINTING	2.703	0.934	0.273	0.023	1.468
110 XI.J	OTHER SERVICES	2.083	0.597	0.379	0.026	1.090
120 LABOR		3.710	0.0	0.0	0.0	2.730

## 1973 Second Half

		Percent Change in Sector Unit Output Prices Due to Changes in				
		Total	Agricultural Prices	Other Raw Material Prices	Crude Oil Unit Prices	Labor Costs
1 I	AGRICULTURE/FORESTRY	30.255	33.359	0.332	0.225	1.314
16 II.C.1	CRUDE, NATURAL GAS	75.051	0.404	0.337	74.775	1.581
17 II.C.2	REFINED PRODUCTS	12.046	0.339	0.220	31.465	0.321
18 II.D	EXOR. RAW MATERIALS	37.790	0.018	31.561	3.029	2.155
22 III	PROCESSED FOODS	21.441	17.907	0.963	1.109	1.471
30 III.I	Tobacco	6.936	5.754	0.110	0.272	0.725
36 IV.A	IRON, STEEL	12.439	0.568	8.150	1.822	1.234
40 IV.B	NON-FERROUS	17.225	0.733	12.343	2.052	2.047
41 IV.C	FABRICATED SHAPES	7.541	0.510	4.552	1.250	1.194
43 V.A	CHEMICALS	8.853	2.494	1.374	3.025	1.559
50 V.B	RUBBER	8.795	4.177	0.357	1.501	2.260
52 VI.A	FIBERS, YARN	10.822	6.749	0.544	1.308	2.232
58 VI.C	CLOTHING FURS	7.724	1.787	0.675	0.289	2.473
59 VI.D	LEATHER GOODS	10.457	6.380	0.637	1.130	2.240
63 VII	WOOD PRODUCTS	12.347	8.751	0.710	1.167	2.718
72 VIII.A	AGRI., INDUSTRIAL	6.276	0.585	2.479	1.030	2.173
73 VIII.B	ELECTRIC	6.987	0.924	2.357	1.062	2.345
76 VIII.C	TRANSPORT	6.293	0.759	2.732	0.937	2.235
82 VIII.D	PRECISION INSTRUMENTS	6.574	1.314	2.042	0.883	2.340
83 VIII.E	MISC. MANUFACTURE	7.541	2.611	1.164	1.733	2.053
86 IX	CONSTRUCTION	10.433	1.457	5.363	1.607	2.206
90 X	UTILITIES	4.159	0.343	1.070	6.150	1.550
95 XI.A	TRANSPORT	5.677	0.334	0.411	2.210	2.672
102 XI.B	COMMUNICATION	3.129	0.261	0.115	0.221	2.451
103 XI.C	WHOLESALE, RETAIL	3.518	0.510	0.242	0.042	2.174
104 XI.D	PUBLISHING, PRINTING	6.050	2.554	0.412	0.403	2.480
110 XI.J	OTHER SERVICES	4.613	1.638	0.557	0.365	1.853
120 LABOR		4.368	0.0	0.0	0.0	3.568

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TABLE 3B  
Continued -Impact of Changes in Exogenous Prices  
on Unit Output Prices in Japan  
Partial Sector Results

1974 First Half\*

		Percent Change in Sector Unit Output Prices Due to Changes in				
		Total	Agricultural Input Prices	Other Raw Material Prices	Crude Oil Unit Prices	Labor Costs
1	AGRICULTURE/FORESTRY	24.776	27.516	0.133	2.742	1.595
16 II.C.1	CRUDE, NATURAL GAS	120.671	0.327	0.116	117.706	2.424
17 II.C.2	REFINED PRODUCTS	62.421	0.276	0.075	66.629	1.463
18 II.D	EXTR. RAW MATERIALS	29.555	0.717	0.158	8.916	3.145
22 III	PROCESSED FOODS	17.973	12.317	0.126	3.030	2.120
24 III.1	TOBACCO	8.172	1.411	0.067	8.771	1.121
36 IV.A	IRON, STEEL	11.066	0.458	2.564	5.160	2.872
40 IV.B	NON-FERROUS	13.116	0.510	3.749	5.597	3.210
61 IV.C	FABRICATED SHAPES	4.474	0.415	1.169	3.436	3.435
83 V.A	CHEMICALS	13.643	2.211	0.461	8.173	2.997
99 V.B	RUBBER	11.144	3.252	0.289	6.116	3.526
32 VI.A	FIBERS, YARN	12.371	5.128	0.184	3.566	3.493
36 VI.C	CLOTHING FURS	7.709	2.959	0.121	2.723	3.462
99 VI.D	LEATHER GOODS	11.740	0.369	0.232	3.134	3.515
63 VII	IRON PRODUCTS	13.320	6.654	0.210	3.210	3.105
72 VIII.A	AGRI., INDUSTRIAL	7.561	0.471	0.822	2.863	3.403
73 VIII.B	ELECTRIC	7.859	0.743	0.978	2.925	3.225
78 VIII.C	TRANSPORT	7.396	0.211	0.759	2.639	3.692
82 VIII.D	PRECISION INSTRUMENTS	7.825	1.052	0.660	2.435	3.673
83 VIII.E	MISC. MANUFACTURE	10.323	2.063	0.391	4.740	3.124
88 IX	CONSTRUCTION	10.212	1.165	1.731	3.683	3.623
40 X	UTILITIES	19.271	0.278	0.363	18.342	2.453
99 XI.A	TRANSPORT	10.657	0.273	0.151	8.572	4.203
102 XI.B	COMMUNICATION	8.266	0.211	0.058	6.791	3.428
103 XI.C	WHOLESALE, RETAIL	8.518	0.419	0.276	7.578	3.452
104 XI.D	PUBLISHING, PRINTING	7.710	2.329	0.149	1.579	3.651
110 XII	OTHER SERVICES	5.970	1.597	0.188	1.554	2.911
120	LABOR	8.999	0.0	0.0	0.0	8.990

\*Based on price changes through April.

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TABLE 5

Impact of Recent Oil Price Increase  
on Unit Output Prices in Japan  
Complete Sector Results

		SECTOR WEIGHT	PERCENT CHANGE IN SECTOR UNIT OUTPUT PRICES
2 I.A	FRUITS, CROPS TYPE A	14.595	2.313
3 I.B	FRUITS, CROPS TYPE B	0.076	3.273
4 I.C	LIVESTOCK, EDIBLE	3.305	2.461
5 I.D	LIVESTOCK, OTHER	0.146	2.401
6 I.E	LUMBERING	0.395	2.099
7 I.F	FISHERIES	5.769	4.708
10 II.A.1	FERROUS	0.074	5.894
11 II.A.2	NON-FERROUS	0.257	4.345
13 II.B.1	LUMP	0.250	3.158
14 II.B.2	COKE, COAL PRODUCTS	0.440	5.830
16 II.C.1	CRUDE, NATURAL GAS	0.120	244.149
17 II.C.2	REFINED PRODUCTS	5.216	90.990
18 II.D	OTHER MINERALS	0.049	13.224
19 II.D.1	CERAMICS	3.306	7.914
23 III.A	MEAT, MEAT PRODUCTS	12.858	2.662
25 III.A.2	MARINE PRODUCTS	9.178	3.836
28 III.C	GRAINS	17.078	2.822
32 III.G	OTHER EDIBLES	25.419	3.465
33 III.H	BEVERAGES	12.959	1.602
34 III.I	TOBACCO	9.977	0.846
37 IV.A.1	PIG IRON, INGOTS	-0.956	6.127
38 IV.A.2	MILL PRODUCTS	13.087	4.738
40 IV.B	NON-FERROUS	-0.215	4.305
41 IV.C	FABRICATED SHAPES	13.264	3.191
44 V.A.1	PETRO- OR BASIC	4.612	11.771
45 V.A.2	SYN FIBER FEEDSTOCK	2.072	9.550
46 V.A.3	OTHER	11.644	5.047
50 V.B	RUBBER	3.077	4.897
53 VI.A.1	NATURAL	0.679	2.693
54 VI.A.2	SYNTHETIC	0.530	6.118
55 VI.B	FABRICS	23.237	3.867
58 VI.C	CLOTHING- FURS	16.401	2.858
59 VI.D	LEATHER GOODS	1.219	3.118
64 VII.A	FURNITURE	7.046	2.484
65 VII.B	LUMBER	1.219	2.598
66 VII.C	PULP PAPER	1.610	4.240
68 VII.D.1	PACKAGING	0.099	4.097
69 VII.D.2	OFFICE SUPPLIES	0.290	2.792
72 VIII.A	AGRI., INDUSTRIAL	62.131	2.651
73 VIII.B	ELECTRIC	53.627	2.693
76 VIII.C	TRANSPORT	60.376	2.465
82 VIII.D	PRECISION INSTRUMENTS	9.093	2.335
83 VIII.E	MISC. MANUFACTURE	12.219	5.516
87 IX.A	CIVIL ENGINEERING	67.083	4.328
88 IX.B	BUILDING	114.959	3.406
91 X.A	GAS	1.494	20.676
92 X.B	ELECTRIC POWER	5.072	18.941
93 X.C	WATER, SEWAGE	3.862	5.320
95 XI.A	TRANSPORT	44.178	5.866
102 XI.B	COMMUNICATION	3.541	0.766
103 XI.C	WHOLESALE, RETAIL	103.235	2.434
104 XI.D	PUBLISHING, PRINTING	5.228	1.834
105 XI.E	BANKING	24.333	0.535
107 XI.G	REAL ESTATE	55.906	0.551
108 XI.H	RENTALS	0.367	0.463
110 XI.J.2	RESEARCH	1.049	1.723
113 XI.J.3	PUBLIC SERVICES	65.182	1.735
116 XI.J.6	OTHER	82.628	1.939
118 XII	UNDISTRIBUTED	4.142	2.114
Total Change Weighted by Gross Final Demand = 3.5336			

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Japan: Import Prices Trends\*  
 (December 1971=100)

	1972		1973		1974
	June	Dec	June	Dec	April
Foodstuffs	99.7	106.0	118.2	152.0	188.3
Industrial raw materials	98.7	106.7	126.8	157.0	177.6
Oil	102.8	105.5	109.3	187.4	405.5

\* Unit value in yen.

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Japan: Import Price Trends  
for Selected Commodities\*  
 (December 1971=100)

	1972		1973		1974
	June	Dec	June	Dec	April
Wheat	95.7	122.7	139.0	217.7	303.2
Corn	97.7	105.9	118.4	181.5	217.5
Soybeans	101.3	99.2	131.9	154.5	185.3
Wool	129.4	205.5	294.6	366.3	326.5
Cotton	101.9	103.8	88.1	120.6	149.2
Iron Ore	93.7	94.9	82.5	104.5	104.7
Iron and Steel					
Scrap	103.1	123.9	164.1	240.0	257.2
Non-ferrous					
ores	97.5	99.4	109.4	151.0	178.4
Hides and					
skins	152.3	164.3	118.7	189.2	199.8
Natural					
rubber	93.2	96.7	128.7	193.0	237.0
Logs	99.2	107.9	154.8	159.1	195.6
Coal	119.2	111.7	103.9	122.5	160.3

\*Unit value in yen.

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Japan: Trends in Plant Capacity  
(change over previous year)

	<u>Manu- facturing</u>	<u>Iron &amp; Steel</u>	<u>Non- Ferrous Metals Products</u>	<u>Machinery</u>	<u>Chemicals</u>	<u>Textiles</u>	<u>Rubber Products</u>
1966	6.8	10.4	10.3	4.1	10.0	4.7	4.4
1967	12.3	17.0	11.4	17.8	11.5	5.7	6.9
1968	12.0	10.2	17.5	16.2	18.7	4.2	16.6
1969	15.0	14.4	17.6	24.9	13.1	4.6	19.1
1970	15.3	14.1	16.2	20.3	18.5	6.9	12.2
1971	8.6	10.2	10.7	8.4	15.2	4.1	11.1
1972	5.4	8.3	10.4	6.2	8.8	-3.1	8.1
1973	8.9	8.9	10.8	12.4	5.1	1.6	14.9

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Japan: Trends in Fixed Investment

Percentage Change from Corresponding Period of Previous Year

	<u>Private Fixed Investment</u>
1968	24.9
1969	19.5
1970	14.4
1971	3.1
1972	8.0
1973	18.9
1973 I	17.4
1973 II	16.7
1973 III	20.1
1973 IV	20.7

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